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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

National Intelligence Council

DDI #7086-82

1 September 1982

MEMORANDUM FOR: Director of Central Intelligence

VIA: Acting Chairman, National Intelligence Council #

FROM: Maurice C. Ernst
National Intelligence Officer for Economics

SUBJECT: The Pipeline and East-West Trade

1. We are preparing two projects at your request under my direction:

- (1) A broad assessment of the impact of Western export restrictions on oil and gas equipment, including pipeline equipment, on the Soviet economy.
- (2) A big picture paper designed to help in developing a rationale for US-Allied agreement on East-West trade policy and some means of reducing the incentives our Allies have had to expand exports to the USSR.

2. SOVA is drafting the first paper, an outline of which I sent you - Tab A yesterday. I will try my hand at the second paper, with support from SOVA, EURA, and OGI. Both should be ready on Monday, September 7. Together the two papers should put the oil and gas export control issue in a much broader perspective. They should also, incidentally, address the principal issues that are apparently raised by Roger Robinson of the NSC in his critique of the recent CIA paper on the pipeline since he was concerned more about what the paper did not address than about what it said. Roger gave me a rundown of his critique on the secure line and promised to LDX a copy to me today. Apparently it was completed two weeks ago but was held up somewhere in channels and not sent to the Agency.

Att A: SOVA Outline
Att B: DCI Memo dtd 30 Aug 82

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Attachment A

**Embargo of Energy Equipment and Technology
to the USSR in Perspective**

I. Prospective Soviet Energy Balance

A. The Changing Nature of Energy Production

- Policy shift from coal to oil and gas.
- Resource constraints and rising costs.

B. Trends in Energy Use

- Changing pattern of energy consumption.
- The record and outlook for conservation (via efficiency gains) and interfuel substitution (no major gains on the horizon).

C. The Role of Energy in Soviet Foreign Trade

- Brief description of the importance of energy to the Soviets as a source of hard currency earnings with which to achieve economic objectives (including defense programs).

II. The Role of Western Equipment

A. What have they been using and for what purpose?

- Description of past trends in acquiring Western energy equipment.
- Increasing importance of high capacity, high quality equipment in the 1980s is leading to greater significance for Western equipment in Soviet energy production (i.e. the opportunity cost of not having Western equipment will be higher than in the past because of the points made in I A. and I B. above).

B. Types of Equipment Needed

- Relates specific equipment to specific problems facing Soviet energy producers (e.g. watercut, high sulfur, etc.).
- Relative capability of Soviet domestic equipment to cope with these problems.

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III. Cost of Disrupting the Balance

This section examines the cost to the Soviets of having to go it alone; (1) almost completely (an embargo of Western energy equipment from the US plus other NATO countries plus Japan) and (2) with only the loss of US equipment (an embargo of US energy equipment only).

A. Impact on energy production

B. Soviet response

- by themselves
- with other Western countries

C. Implications for the economy

- Policy options (i.e. do they take impact out of their domestic hide or their foreign exchange earnings).
- Impact on hard currency earnings and use.
- Impact on economic growth.
 - aggregate impact (i.e. GNP)
 - bottlenecks created (i.e. direct impact of energy shortfalls on individual sectors)
 - resource redistribution issues (investment, labor, industrial materials).
- Impact on military programs and defense resources.

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